UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________to _________

Commission file number 000-23877

Heritage Commerce Corp

(Exact name of Registrant as Specified in its Charter)

California	77-0469558
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

150 Almaden Boulevard
San Jose, California 95113
(Address of Principal Executive Offices including Zip Code)

(408) 947-6900
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

The Registrant had 11,185,131 shares of Common Stock outstanding on November 1, 2002.

HERITAGE
COMMERCE CORP

Heritage Commerce Corp and Subsidiaries
Quarterly Report on Form 10-Q
Table of Contents

Part I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HERITAGE COMMERCE CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in thousands)		September 30, 2002		December 31, 2001
ASSETS				
Cash and due from banks	$	41,861	$	27,015
Interest bearing deposits in other financial institutions		6,401		7,704
Federal funds sold		102,700		71,600
Total cash and cash equivalents		150,962		106,319
Securities available-for-sale, at fair value		94,964		91,534
Securities held-to-maturity, at amortized cost (fair value of $15,708 at December 31, 2001)		--		15,276
Loans held for sale, at lower of cost or market		39,471		32,461
Loans, net of deferred costs		630,684		632,917
Allowance for probable loan losses		(12,416)		(11,154)
Loans, net		618,268		621,763
Premises and equipment, net		5,574		5,470
Accrued interest receivable and other assets		23,940		15,128
Other investments		26,541		24,779
TOTAL	$	959,720	$	912,730
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities:				
Deposits				
Demand, noninterest bearing	$	237,776	$	206,637
Demand, interest bearing		84,581		80,529
Savings and money market		282,400		229,994
Time deposits, under $100		48,863		72,608
Time deposits, $100 and over		124,541		150,144
Brokered deposits		63,776		67,996
Total deposits		841,937		807,908
Accrued interest payable and other liabilities		13,992		11,248
Mandatorily redeemable cumulative trust preferred securities of subsidiary grantor trust		23,000		19,000
Total liabilities		878,929		838,156
Commitments and contingencies				
Shareholders' equity:				
Preferred stock, no par value; 10,000,000 shares authorized; none outstanding		--		--
Common stock, no par value; 30,000,000 shares authorized; shares issued and outstanding: 11,184,917 at September 30, 2002 and 11,114,967 at December 31, 2001		63,874		63,536
Accumulated other comprehensive income, net of taxes		2,015		1,021
Retained earnings		14,902		10,017
Total shareholders' equity		80,791		74,574
TOTAL	$	959,720	$	912,730

See notes to condensed consolidated financial statements

HERITAGE COMMERCE CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENTS (UNAUDITED)

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Interest income:				
Loans, including fees	$ 11,493	$ 14,043	$ 34,802	$ 44,618
Securities, taxable	1,142	972	3,415	3,518
Securities, non-taxable	121	206	385	504
Interest bearing deposits in other financial institutions	22	44	70	127
Federal funds sold	273	590	740	2,040
Total interest income	13,051	15,855	39,412	50,807
Interest expense:				
Deposits	3,210	5,344	10,557	17,792
Mandatorily redeemable trust preferred securities	444	432	1,371	1,184
Other	1	27	13	140
Total interest expense	3,655	5,803	11,941	19,116
Net interest income before provision for probable loan losses	9,396	10,052	27,471	31,691
Provision for probable loan losses	750	279	2,066	1,334
Net interest income after provision for probable loan losses	8,646	9,773	25,405	30,357
Noninterest income:				
Gain on sale of loans	596	753	1,574	1,304
Servicing income	362	193	940	486
Gain on sale of securities available-for-sale	361	181	786	732
Service charges and other fees on deposit accounts	360	254	1,047	690
Other investment income	279	239	830	749
Other income	402	205	1,060	793
Total noninterest income	2,360	1,825	6,237	4,754
Noninterest expenses:				
Salaries and employee benefits	4,580	4,734	13,761	14,190
Occupancy	814	712	2,322	2,073
Furniture and equipment	379	447	1,062	1,191
Loan origination costs	343	314	941	973
Professional fees	347	446	919	1,041
Client services	238	464	678	1,403
Advertising and promotion	185	342	515	924
Stationery & supplies	82	109	268	367
Telephone	83	90	241	272
Other	1,295	1,029	3,657	3,189
Total noninterest expenses	8,346	8,687	24,364	25,623
Income before provision for income taxes	2,660	2,911	7,278	9,488
Provision for income taxes	848	1,088	2,393	3,594
Net income	$ 1,812	$ 1,823	$ 4,885	$ 5,894
Earnings per share:				
Basic	$ 0.16	$ 0.16	$ 0.44	$ 0.53
Diluted	$ 0.16	$ 0.16	$ 0.43	$ 0.52

See notes to condensed consolidated financial statements

HERITAGE COMMERCE CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)	Nine Months Ended September 30, 2002	2001
Cash flows from operating activities:		
Net income	$ 4,885	$ 5,894
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,151	1,214
Provision for probable loan losses	2,066	1,334
Gain on sale of securities available-for-sale	(786)	(732)
Net amortization of premiums / accretion of discounts	409	(231)
Gains on sales of loans held for sale	(1,574)	(1,304)
Proceeds from sales of loans held for sale	37,094	30,011
Originations of loans held for sale	(55,817)	(29,637)
Maturities of loans held for sale	13,287	759
Effect of changes in:		
Accrued interest receivable and other assets	(8,568)	(4,361)
Accrued interest payable and other liabilities	2,059	4,300
Net cash (used in) provided by operating activities	(5,794)	7,247
Cash flows from investing activities:		
Net decrease (increase) in loans	1,429	(5,304)
Purchases of securities available-for-sale	(33,194)	(62,756)
Maturities/paydowns/calls of securities available-for-sale	17,196	18,362
Proceeds from sales of securities available-for-sale	27,879	59,080
Maturities/paydowns/calls of securities held-to-maturity	1,776	2,663
Purchases of corporate owned life insurance	(1,580)	(4,558)
Purchases of other investments	(182)	(295)
Purchases of property and equipment	(1,255)	(623)
Net cash provided by investing activities	12,069	6,569
Cash flows from financing activities:		
Net increase in deposits	34,029	63,652
Proceeds from issuance of mandatorily redeemable cumulative trust preferred securities of subsidiary grantor trust	4,000	5,000
Net proceeds from issuance of common stock	339	1,022
Net change in FHLB borrowings	--	(18,000)
Net cash provided by financing activities	38,368	51,674
Net increase in cash and cash equivalents	44,643	65,490
Cash and cash equivalents, beginning of period	106,319	60,069
Cash and cash equivalents, end of period	$ 150,962	$ 125,559
Supplemental disclosures of cash paid during the period for:		
Interest	$ 13,988	$ 19,179
Income taxes	$ 4,070	$ 4,450
Supplemental schedule of non-cash investing and financing activity:		
Transfer of investment securities from HTM to AFS	$ 13,619	$ --

See notes to condensed consolidated financial statements

HERITAGE COMMERCE CORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2002
(Unaudited)

1) Basis of Presentation

The unaudited condensed consolidated financial statements of Heritage Commerce Corp (the "Company") and its wholly owned subsidiaries: Heritage Bank of Commerce (HBC), Heritage Bank East Bay (HBEB), Heritage Bank South Valley (HBSV), and Bank of Los Altos (BLA), and Heritage Capital Trust I, Heritage Statutory Trust I, Heritage Statutory Trust II, and Heritage Commerce Corp Statutory Trust III which are Delaware Statutory business trusts formed for the exclusive purpose of issuing and selling trust preferred securities, have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and notes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements are not included herein. The interim statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2001.

HBC, HBEB, HBSV, and BLA are commercial banks, which offer similar products to customers located in Santa Clara, Alameda, and Contra Costa counties of California. No customer accounts for more than 10 percent of revenue for HBC, HBEB, HBSV, BLA or the Company. Management evaluates the Company's performance as a whole and does not allocate resources based on the performance of different lending or transaction activities. Accordingly, the Company and its subsidiary banks all operate as one business segment.

In the Company's opinion, all adjustments necessary for a fair presentation of these condensed consolidated financial statements have been included and are of a normal and recurring nature. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

The results for the three and nine months ended September 30, 2002 are not necessarily indicative of the results expected for any subsequent period or for the entire year ending December 31, 2002.

2) Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average common shares outstanding. Diluted earnings per share reflects potential dilution from outstanding stock options, using the treasury stock method. For each of the periods presented, net income is the same for basic and diluted earnings per share. Reconciliation of weighted average shares used in computing basic and diluted earnings per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	**2001**	**2002**	**2001**
Weighted average common shares outstanding - used in computing basic earnings per share..........................	11,169,765	11,106,956	11,143,721	11,071,581
Dilutive effect of stock options outstanding, using the treasury stock method..................................	278,494	288,606	280,195	307,920
Shares used in computing diluted earnings per share..........	11,448,259	11,395,562	11,423,916	11,379,501

3) Comprehensive Income

Comprehensive Income includes net income and other comprehensive income, which represents the change in the Company's net assets during the period from non-owner sources.

The Company's only sources of other comprehensive income is derived from unrealized gains and losses on investment securities available-for-sale and I/O strips and is presented net of tax. Reclassification adjustments resulting from gains or losses on investment securities that were realized and included in net income of the current period that also had been included in other comprehensive income as unrealized holding gains or losses in the period in which they arose are excluded from comprehensive income of the current period. The Company's total comprehensive income was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2002	2001	2002	2001
Net income	$ 1,812	$ 1,823	$ 4,885	$ 5,894
Other comprehensive income (loss), net of tax:				
Net unrealized holding gain on available-for-sale securities and I/O strips during the period	996	849	1,522	1,330
Less: reclassification adjustment for realized gains on available-for-sale securities included in net income during the period	(246)	(112)	(528)	(452)
Other comprehensive income (loss)	750	737	994	878
Comprehensive income	$ 2,562	$ 2,560	$ 5,879	$ 6,772

4) Transfer of Securities

The Company transferred all of its securities categorized as held-to-maturity to the available-for-sale category. The amortized cost of the transferred securities was $12,778,000 and the related net unrealized holding gain was $841,000. The transfer of these securities was made at the fair value of the securities at the date of the transfer with the unrealized holding gains or losses, net of taxes, included in other comprehensive income, which is a separate component of shareholders' equity.

The Company transferred these securities to increase liquid assets and to increase the ability for possible sale of these securities in the future and intends to classify all new purchases of securities as available-for-sale

5) Mandatorily Redeemable Cumulative Trust Preferred Securities of Subsidiary Grantor Trust

Heritage Commerce Corp Statutory Trust III

Heritage Commerce Corp Statutory Trust III is a Delaware business trust formed by the Company for the purpose of issuing Company obligated mandatorily redeemable cumulative trust preferred securities.

During the third quarter of 2002, Heritage Commerce Corp Statutory Trust III issued 4,000 Floating Rate Capital Securities, with a liquidation value of $1,000 per security to the Company for gross proceeds of $4,000,000. The entire proceeds of the issuance were invested by Heritage Commerce Corp Statutory Trust III in $4,000,000 aggregate principal amount of Floating Rate Junior Subordinated Deferrable Interest Debentures, with identical maturity, repricing and payment terms as the Floating Rate Capital Securities (the "Subordinated Debentures") issued by the Company. The Subordinated Debentures represent the sole assets of Heritage Commerce Corp Statutory Trust III. The Subordinated Debentures mature on September 26, 2032, bear an initial interest rate of

5.22% (based on 3-month LIBOR plus 3.40%), repricing and payable semi-annually, and are redeemable by the Company at a premium beginning on or after September 26, 2007 based on a percentage of the principal amount of the Subordinated Debentures as stipulated in the Indenture Agreement, plus any accrued and unpaid interest to the redemption date. The Subordinated Debentures are redeemable at 100 percent of the principal amount plus any accrued and unpaid interest to the redemption date at any time on or after September 26, 2012 with proper notification. The Floating Rate Capital Securities are subject to mandatory redemption to the extent of any early redemption of the Subordinated Debentures and upon maturity of the Subordinated Debentures on September 26, 2032. The Subordinated Debentures bear the same terms and interest rates as the Floating Rate Capital Securities.

Holders of the Floating Rate Capital Securities are entitled to cumulative cash distributions on the liquidation amount of $1,000 per security beginning on September 26, 2002 and ending on December 26, 2002 at an initial rate per annum of 5.22% and for each quarter thereafter at an annualized rate equal to the 3-month LIBOR, plus 3.40%. However, through September 26, 2007 the rate may not exceed 11.90%. The distributions on the Floating Rate Capital Securities are treated as interest expense in the consolidated income statements. The Company has the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default in the payment of interest on the Subordinated Debentures. The Floating Rate Capital Securities issued in the offering were sold in private transactions pursuant to an applicable exemptions from registration under the Securities Act of 1933, as amended. The Company has guaranteed on a subordinated basis, distributions and other payments due on the Floating Rate Capital Securities (the Guarantee). The Guarantee, when taken together with the Company’s obligations under the Subordinated Debentures, the Indenture Agreement pursuant to which the Subordinated Debentures were issued and the Company’s obligations under the Trust Agreement governing the subsidiary trust, provide a full and unconditional guarantee of amounts due on the Floating Rate Capital Securities.

6) Recent Accounting Pronouncements

In June 2002, the FASB issued SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, which addresses accounting for restructuring and similar costs. SFAS 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3. The Company will adopt the provisions of SFAS 146 for restructuring activities initiated after December 31, 2002. SFAS 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of the Company's commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS 146 may affect the timing of recognizing future restructuring costs as well as the amounts recognized.

7) Reclassifications

Certain amounts in the December 31, 2001 and September 30, 2001 financial statements have been reclassified to conform to the September 30, 2002 financial statement presentation.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Discussions of certain matters in this Report on Form 10-Q may constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations, are generally identifiable by the use of words such as "believe", "expect", "intend", "anticipate", "estimate", "project", or similar expressions. These forward-looking statements relate to, among other things, expectations of the business environment in which the Company operates, projections of future performance, potential future performance, potential future credit experience, perceived opportunities in the market, and statements regarding the Company's mission and vision. The Company's actual results, performance, and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements due to a wide range of factors. The factors include, but are not limited to changes in interest rates, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the US Government, real estate valuations, competition in the financial services industry, and other risks. All of the Company's operations and most of its customers are located in California. During the past year, the availability of a sufficient supply of electrical power in California has been unreliable at times. In addition, other events, including those of September 11, 2001, have increased the uncertainty related to the national and California economic outlook and could have an effect on the future operations of the Company or its customers, including borrowers. The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Heritage operates as the bank holding company for the four subsidiary banks: Heritage Bank of Commerce, Heritage Bank East Bay, Heritage Bank South Valley and Bank of Los Altos (collectively the "Banks"). All are California state chartered banks, which offer a full range of commercial and personal banking services to residents and the business/professional community in Santa Clara, Contra Costa and Alameda Counties, California. The accounting and reporting policies of Heritage Commerce Corp and its subsidiaries conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. On July 12, 2002, the Company announced its plans to merge three of its wholly owned commercial bank subsidiaries into the Company's original wholly owned bank subsidiary. HBEB, HBSV, and BLA will operate as divisions of HBC and continue to serve their local markets and communities under their current names. The proposed transaction is expected to be completed by December 31, 2002 and is subject to regulatory approval.

CRITICAL ACCOUNTING POLICIES

General

Heritage Commerce Corp's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial information contained within our financial statements is, to a significant extent, based on approximate measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. In certain instances, the Company uses the discount factor and prepayment assumptions to determine the present value of assets and liabilities. A change in the discount factor or prepayment spreads could increase or decrease the values of those assets and liabilities which would result in either a beneficial or adverse impact to the Company's financial results. The Company used historical loss experience as one factor in determining the inherent loss that may be present in the Company's loan portfolio. Actual losses could differ significantly from the historical factors that we use. Other estimates that the Company used are related to the expected useful lives of the Company's depreciable assets. In addition GAAP itself may change from one previously acceptable method to another method. Although the economics of the Company's transactions would be the same, the timing of events that would impact the Company's transactions could change.

Allowance for Probable Loan Losses

The allowance for probable loan losses is an estimate of the losses that may be sustained in the Company's loan portfolio. The allowance is based on two basic principles of accounting. (1) Statement of Financial Accounting Standards (SFAS) No. 5 "Accounting for Contingencies", which requires that losses be accrued when they are probable of occurring and estimable and (2) SFAS No. 114, "Accounting by Creditors for Impairment of a Loan", which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The Company's allowance for probable loan losses has three basic components: the formula allowance, the specific allowance and the unallocated allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. The formula allowance uses an historical loss view as an indicator of future losses and as a result could differ from the losses incurred in the future. The specific allowance uses various techniques to arrive at an estimate of loss. Historical loss information, and fair market value of collateral are used to estimate those losses. The use of these values is inherently subjective and our actual losses could be greater or less than the estimates. The unallocated allowance captures losses that are attributable to various economic events, industry or geographic sectors whose impact on the portfolio have occurred but have yet to be recognized in either the formula or specific allowances. For further information regarding our allowance for credit losses, see Allowance for Probable Loan Losses on page 21.

Loan Sales and Servicing

The amounts of gains recorded on sales of loans and the initial recording of servicing assets and interest only strips is based on the estimated fair values of the respective components. In recording the initial value of the servicing assets and the fair value of the Interest-Only (I/O) strips receivable, the Company uses estimates which are made based on management's expectations of future prepayment and discount rates. For the quarter ended September 30, 2002, management's estimate of constant prepayment rate ("CPR") was 14% and the weighted average discount rate assumption was 10%. These prepayment and discount rates were based on current market conditions and historical performance of the various pools of loans. If actual prepayments with respect to sold loans occur more quickly than projected the carrying value of the servicing assets may have to be adjusted through a charge to earnings. Variations in prevailing interest rates on borrowed funds, changes in general economic conditions, among other factors, could cause changes in the prepayment experience. A corresponding decrease in the value of the I/O strip receivable would also be expected.

Stock Based Awards

The Company accounts for its stock based awards using the intrinsic value method in accordance with Accounting Principles Board ("APB") Opinion No. 25 and related interpretations. Since the Company's stock option plans provide for the issuance of options at a price of no less than the fair market value at the date of the grant, no compensation expense has been recognized in the financial statements at the date of grant.

RESULTS OF OPERATIONS

Overview

Net income for the three and nine months ended September 30, 2002 was $1,812,000 and $4,885,000, down 1% from $1,823,000 for the three months ended September 30, 2001 and 17% from $5,894,000 for the nine months ended September 30, 2001. Earnings per diluted share for the three and nine months ended September 30, 2002 were $0.16 and $0.43, the same earning per diluted share for the three months ended September 30, 2001 and down 17% from $0.52 per diluted share for the nine months ended September 30, 2001. Annualized return on average assets and return on average equity for the quarter ended September 30, 2002 were 0.77% and 9.05%, compared with returns of 0.82% and 10.03%, for the same period in the prior year. Annualized return on average assets and return on average equity for the nine months ended September 30, 2002 were 0.71% and 8.45% compared with returns of 0.91% and 11.28% for the same period in the prior year.

For the three months ended September 30, 2002, as compared with the same period in the prior year, net interest income decreased from $10,052,000 to $9,396,000, a decrease of $656,000, or 7%. For the nine months ended September 30, 2002, as compared with the same period in the prior year, net interest income decreased from $31,691,000 to $27,471,000, a decrease of $4,220,000, or 13%. These declines were primarily attributed to a lower net interest margin, resulting from the significant short term interest rate reduction during 2001 and the level of and the timing of repricing of the Company’s interest bearing deposits, partially offset by the overall growth in the Company’s level of earning assets, primarily in loans and investment securities. The Company's net interest margin was 4.36% and 4.33% for the three and nine months ended September 30, 2002, compared with 4.88% and 5.29% for the three and nine months ended September 30, 2001, reflecting both the significant reduction in interest rates that took place in 2001 and the stabilization of interest rates during the first nine months of 2002.

Total assets as of September 30, 2002 were $959,720,000, an increase of $49,855,000, or 5%, from $909,865,000 as of September 30, 2001, and an increase of $46,990,000, or 5%, from total assets of $912,730,000 as of December 31, 2001. Total deposits as of September 30, 2002 were $841,937,000, an increase of $40,099,000, or 5%, from $801,838,000 as of September 30, 2001, and an increase of $34,029,000, or 4%, from total deposits of $807,908,000 as of December 31, 2001.

Total portfolio loans as of September 30, 2002 were $630,684,000, an increase of $14,911,000, or 2%, from $615,773,000 as of September 30, 2001 and down slightly from $632,917,000 as of December 31, 2001. The Company's allowance for probable loan losses was $12,416,000, or 1.97%, of total loans at September 30, 2002. This compares with an allowance for probable loan losses of $10,673,000, or 1.73%, and $11,154,000, or 1.76% of total loans at September 30, 2001 and December 31, 2001. The increase in the allowance for probable loan losses was due to increases in the Company’s level of nonperforming assets and additional provisions to reflect the continued weaknesses in the economy. The Company's nonperforming assets increased to $4,747,000, primarily as a result of the placement of one commercial real estate loan on nonaccrual status, as of September 30, 2002, compared to $66,000 as of September 30, 2001 and none as of December 31, 2001.

The Company's shareholders' equity at September 30, 2002 was $80,791,000, up from $73,527,000 at September 30, 2001 and $74,574,000 as of December 31, 2001. The increase in shareholders’ equity is a result of the income generated over the period, the exercise of common stock options and an increase in other comprehensive income from the net unrealized gains recognized on the transfer of securities from the held-to-maturity category to the available-for-sale category and the unrealized holding gains on the securities available-for-sale. Book value per share has increased to $7.22 at September 30, 2002, from $6.62 at September 30, 2001 and $6.71 at December 31, 2001. The Company's leverage capital ratio was 10.83% at September 30, 2002 compared to 10.25% at September 30, 2001 and 10.20% at December 31, 2001.

Net Interest Income and Net Interest Margin

The following table presents the Company's average balance sheet, net interest income and the resultant yields and rates paid for the period presented:

(Dollars in thousands)	For the Three Months Ended September 30, 2002			For the Three Months Ended September 30, 2001		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Loans, gross	$ 673,816	$ 11,493	6.77%	$ 653,914	$ 14,043	8.52%
Investment securities	111,123	1,263	4.51%	90,484	1,178	5.17%
Interest bearing deposits in other financial institutions	6,179	22	1.41%	5,730	44	3.05%
Federal funds sold	63,180	273	1.71%	67,791	590	3.45%
Total interest earning assets	854,298	$ 13,051	6.06%	817,919	$ 15,855	7.69%
Cash and due from banks	37,722			35,039		
Premises and equipment, net	5,663			5,961		
Other assets	33,555			24,814		
Total assets	$ 931,238			$ 883,733		
Liabilities and shareholders' equity:						
Deposits:						
Demand, interest bearing	$ 79,022	$ 195	0.98%	$ 69,728	$ 256	1.46%
Savings and money market	288,581	1,239	1.70%	225,504	1,659	2.92%
Time deposits, under $100	50,790	354	2.77%	82,049	1,046	5.06%
Time deposits, $100 and over	123,258	764	2.46%	166,692	2,002	4.76%
Brokered deposits	67,886	658	3.85%	27,224	381	5.55%
Other borrowings	19,222	445	9.18%	20,472	459	8.90%
Total interest bearing liabilities	628,759	$ 3,655	2.31%	591,669	$ 5,803	3.89%
Interest bearing demand deposits	209,951			205,340		
Other liabilities	13,094			14,639		
Total liabilities	851,804			811,648		
Shareholders' equity	79,434			72,085		
Total liabilities and shareholders' equity	$ 931,238			$ 883,733		
Net interest income / margin		$ 9,396	4.36%		$ 10,052	4.88%

Note: Yields and amounts earned on loans include loan fees of $1,110,000 and $1,131,000 for the three month periods ended September 30, 2002 and 2001, respectively. Interest income is reflected on an actual basis, not a fully taxable equivalent basis, and does not include a fair value adjustment. Nonaccrual loans of $4,747,000 and $66,000 for the period ended September 30, 2002 and 2001, respectively, are included in the average balance calculation above.

(Dollars in thousands)	For the Nine Months Ended September 30, 2002 Average Balance	Interest Income/ Expense	Average Yield/ Rate	For the Nine Months Ended September 30, 2001 Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Loans, gross	$ 672,292	$ 34,802	6.92%	$ 638,230	$ 44,617	9.35%
Investment securities	109,094	3,800	4.66%	94,914	4,023	5.67%
Interest bearing deposits in other financial institutions	6,779	70	1.38%	4,551	127	3.73%
Federal funds sold	59,110	740	1.67%	63,394	2,040	4.30%
Total interest earning assets	847,275	$ 39,412	6.22%	801,089	$ 50,807	8.48%
Cash and due from banks	37,015			41,553		
Premises and equipment, net	5,597			6,130		
Other assets	32,578			19,702		
Total assets	$ 922,465			$ 868,474		
Liabilities and shareholders' equity:						
Deposits:						
Demand, interest bearing	$ 80,590	$ 549	0.91%	$ 67,394	$ 890	1.77%
Savings and money market	266,408	3,667	1.84%	223,788	5,669	3.39%
Time deposits, under $100	58,968	1,465	3.32%	79,199	3,333	5.63%
Time deposits, $100 and over	133,242	2,887	2.90%	166,997	6,862	5.49%
Brokered deposits	68,337	1,989	3.89%	23,424	1,038	5.92%
Other borrowings	19,956	1,384	9.27%	18,356	1,324	9.64%
Total interest bearing liabilities	627,501	$ 11,941	2.54%	579,158	$ 19,116	4.41%
Interest bearing demand deposits	204,045			204,507		
Other liabilities	13,595			14,943		
Total liabilities	845,141			798,608		
Shareholders' equity	77,324			69,866		
Total liabilities and shareholders' equity	-- $ 922,465			$ 868,474		
Net interest income / margin		$ 27,471	4.33%		$ 31,691	5.29%

Note: Yields and amounts earned on loans include loan fees of $3,363,000 and $3,478,000 for the nine month periods ended September 30, 2002 and 2001, respectively. Interest income is reflected on an actual basis, not a fully taxable equivalent basis, and does not include a fair value adjustment. Nonaccrual loans of $4,747,000 and $66,000 for the period ended September 30, 2002 and 2001, respectively, are included in the average balance calculation above.

The Company's net interest income for the three and nine months ended September 30, 2002 was $9,396,000 and $27,471,000, a decrease of $656,000 or 7% over the same three month period in the prior year and a decrease of $4,220,000, or 13% over the same nine month period in the prior year. For the three and nine months ended September 30, 2002 compared to the same periods in the prior year, average earning assets increased by $36,379,000, or 4%, and $46,186,000, or 6%. For the three months ended September 30, 2002, the average yield on earning assets was 6.06%, down 163 basis points from 7.69% for the same period in 2001. Over the same period the rates paid on interest bearing liabilities declined 158 basis points to 2.31% from 3.89%. For the nine months ended September 30, 2002, the average yield on earning assets was 6.22%, down 226 basis points from 8.48% for the same period in 2001. Over the same period the rates paid on interest bearing liabilities decreased 187 basis points to 2.54% from 4.41%. Overall, the net interest margin decreased to 4.36% and 4.33% for the three and nine months ended September 30, 2002, from 4.88% and 5.29% for the same periods in the prior year. The decrease in interest rates for the three and nine months ended September 30, 2002 compared to the same period in 2001 resulted in a reduction in net interest income of $1,040,000 and $5,585,000. The impact of the decrease in interest rates was mitigated by the growth in the level of earning assets (partially offset by the increase in interest bearing liabilities) as overall volume increases added $384,000 and $1,365,000 to the net interest income for the three and nine months ended September 30, 2002 compared to the same periods in 2001. The increased level of average loans and investment securities was primarily funded by the increase in the deposits and by a decrease in the level of average Federal funds sold.

The following table sets forth an analysis of the changes in interest income resulting from changes in the average volume of interest earning assets and liabilities and changes in the average rates earned and paid. The total change is shown in the column designated “Net Change” and is allocated in the columns to the left, to the portions respectively attributable to volume changes and rate changes that occurred during the period indicated. Changes due to both volume and rate have been allocated to the change in volume.

	Three Months Ended September 30, 2002 vs. 2001		
	crease) Due to Change In:		
(Dollars in thousands)	Average Volume	Average Rate	Net Change
Interest earning assets			
Loans, gross	$ 339	$ (2,889)	$ (2,550)
Investment securities	235	(150)	85
Interest bearing deposits in other financial institutions	2	(24)	(22)
Federal funds sold	(20)	(297)	(317)
Total interest earning assets	$ 556	$ (3,360)	$ (2,804)
Interest bearing liabilities			
Demand, interest bearing	23	(84)	(61)
Savings and money market	271	(691)	(420)
Time deposits, under $100	(218)	(474)	(692)
Time deposits, $100 and over	(269)	(969)	(1,238)
Brokered Deposits	394	(117)	277
Other borrowings	(29)	15	(14)
Total interest bearing liabilities	$ 172	$ (2,320)	$ (2,148)
Net interest income	$ 384	$ (1,040)	$ (656)

(Dollars in thousands)	Nine Months Ended September 30, 2002 vs. 2001 crease) Due to Change In: Average Volume	Average Rate	Net Change
Interest earning assets			
Loans, gross	$ 1,763	$ (11,578)	$ (9,815)
Investment securities	494	(717)	(223)
Interest bearing deposits in other financial institutions	23	(80)	(57)
Federal funds sold	(54)	(1,246)	(1,300)
Total interest earning assets	$ 2,226	$ (13,621)	$ (11,395)
Interest bearing liabilities			
Demand, interest bearing	$ 90	$ (431)	$ (341)
Savings and money market	587	(2,589)	(2,002)
Time deposits, under $100	(503)	(1,365)	(1,868)
Time deposits, $100 and over	(731)	(3,244)	(3,975)
Brokered Deposits	1,307	(356)	951
Other borrowings	111	(51)	60
Total interest bearing liabilities	$ 861	$ (8,036)	$ (7,175)
Net interest income	$ 1,365	$ (5,585)	$ (4,220)

Provision for Probable Loan Losses

The provision for probable loan losses represents the current period expense associated with maintaining an appropriate allowance for credit losses. The loan loss provision and level of allowance for each period is dependent upon many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, management's assessment of the quality of the loan portfolio, the valuation of problem loans and the general economic conditions in the Company's market area. Periodic fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for probable loan losses; however, actual loan losses may vary from current estimates. For the three and nine months ended September 30, 2002, the provision for probable loan losses was $750,000 and $2,066,000, up $471,000 and $732,000, from $279,000 and $1,334,000 for the same periods in the prior year. See additional discussion at Allowance for Probable Loan Losses.

Noninterest Income

The following table sets forth the various components of the Company's noninterest income for the periods indicated:

(Dollars in thousands)	Three Months Ended September 30, 2002	2001	Increase (decrease) 2002 versus 2001 Amount	Percent
Gain on sale of loans	$ 596	$ 753	$ (157)	(21)%
Servicing income	362	193	169	88 %
Gain on sale of securities available-for-sale	361	181	180	99 %
Service charges and other fees on deposits accounts	360	254	106	42 %
Other investment income	279	239	40	17 %
Other income	402	205	197	96 %
Total	$ 2,360	$ 1,825	$ 535	29 %

(Dollars in thousands)	Nine Months Ended September 30, 2002	2001	Increase (decrease) 2002 versus 2001 Amount	Percent
Gain on sale of loans	$ 1,574	$ 1,304	$ 270	21 %
Service charges and other fees on deposits accounts	1,047	690	357	52 %
Servicing income	941	486	455	94 %
Other investment income	830	749	81	11 %
Gain on sale of securities available-for-sale	786	732	54	7 %
Other income	1,059	793	266	34 %
Total	$ 6,237	$ 4,754	$ 1,483	31 %

Noninterest income for the three and nine months ended September 30, 2002 was $2,360,000 and $6,237,000, up 29% and 31% from $1,825,000 and $4,754,000 for the same periods in the prior year. The increases were primarily due to the increases in service charges and fees of $106,000 for the three month period and $357,000 for the nine month period from an increase in activity from the growth of the Company and an increase in the price of certain fees, and increases in gain on sale of securities available-for-sale of $180,000 for the three month period and $54,000 for the nine month period, and increases in servicing income of $169,000 for the three month period and $455,000 for the nine month period. Gain on sale of loans decreased $157,000 for the three month period but increased $270,000 for the nine month period. The increase in servicing income and the overall increase in gains on sales of loans was primarily the result of expansion of the SBA lending operation into additional geographic areas of California and the overall increase in the size of the loan porfolio and loans held for sale.

Noninterest Expense

The following table sets forth the various components of the Company's noninterest expenses for the periods indicated:

(Dollars in thousands)	Three Months Ended September 30, 2002	2001	Increase (decrease) 2002 versus 2001 Amount	Percent
Salaries and employee benefits	$ 4,580	$ 4,734	$ (154)	(3)%
Occupancy	814	712	102	14 %
Furniture and equipment	379	447	(68)	(15)%
Professional fees	347	446	(99)	(22)%
Loan origination costs	343	314	29	9 %
Client services	238	464	(226)	(49)%
Advertising and promotion	185	342	(157)	(46)%
Telephone	83	90	(7)	(8)%
Stationery & supplies	82	109	(27)	(25)%
Other	1,295	1,029	266	26 %
Total	$ 8,346	$ 8,687	$ (341)	(4)%

(Dollars in thousands)	Nine Months Ended September 30, 2002	2001	Increase (decrease) 2002 versus 2001 Amount	Percent
Salaries and employee benefits	$ 13,761	$ 14,190	$ (429)	(3)%
Occupancy	2,322	2,074	248	12 %
Furniture and equipment	1,062	1,349	(287)	(21)%
Loan origination costs	941	986	(45)	(5)%
Professional fees	919	989	(70)	(7)%
Client services	678	1,444	(766)	(53)%
Advertising and promotion	515	890	(375)	(42)%
Stationery & supplies	268	368	(100)	(27)%
Telephone	241	270	(29)	(11)%
Other	3,657	3,063	594	19 %
Total	$ 24,364	$ 25,623	$ (1,259)	(5)%

The following table indicates the percentage of noninterest expense in each category:

	For The Three Months Ended September 30,			
(Dollars in thousands)	2002	Percent of Total	2001	Percent of Total
Salaries and employee benefits	$ 4,580	55 %	$ 4,734	55 %
Occupancy	814	10 %	712	8 %
Furniture and equipment	379	5 %	447	5 %
Professional fees	347	4 %	446	5 %
Loan origination costs	343	4 %	314	4 %
Client services	238	3 %	464	5 %
Advertising and promotion	185	2 %	342	4 %
Telephone	83	1 %	90	1 %
Stationery & supplies	82	1 %	109	1 %
Other	1,295	15 %	1,029	12 %
Total	$ 8,346	100 %	$ 8,687	100 %

	For The Nine Months Ended September 30,			
(Dollars in thousands)	2002	Percent of Total	2001	Percent of Total
Salaries and employee benefits	$ 13,761	56 %	$ 14,190	55 %
Occupancy	2,322	10 %	2,074	8 %
Furniture and equipment	1,062	4 %	1,349	5 %
Loan origination costs	941	4 %	986	4 %
Professional fees	919	4 %	989	4 %
Client services	678	3 %	1,444	6 %
Advertising and promotion	515	2 %	890	4 %
Stationery & supplies	268	1 %	368	1 %
Telephone	241	1 %	270	1 %
Other	3,657	15 %	3,063	12 %
Total	$ 24,364	100 %	$ 25,623	100 %

Noninterest expenses for the three and nine months ended September 30, 2001 were $8,346,000 and $24,364,000, down $341,000 and $1,259,000, or 4% and 5%, from $8,687,000 and $25,623,000 for the same periods in the prior year.

For the three months ended September 30, 2002, salaries and benefits decreased $154,000, or 3%, to $4,580,000, as compared to the same period in the prior year. Salaries and benefits decreased $429,000, or 3%, to $13,761,000 for the first nine months of 2002, as compared to the same period in the prior year. The decrease was primarily due to a decrease in employee bonuses in 2002 and reductions in salary expenses for temporary staff. For the comparative three month periods, occupancy increased by $102,000, or 14%, and for the nine month periods the increase was $248,000, or 12%, to $2,322,000 primarily as a result of increased rental costs. Occupancy costs, as a percentage of total noninterest expenses remained fairly constant over the comparative three and nine month periods. For the comparative three months periods, professional fees decreased $99,000, or 22%, to $347,000, and for the nine month periods professional fees decreased $70,000, or 7%, to $919,000. For the comparative three month periods, furniture and equipment decreased by $68,000, or 15%, to $379,000 and for the nine month periods decreased by $287,000, or 21%, to $1,062,000. The decrease in furniture and equipment in 2002 from 2001 was due to associated costs for a new branch in 2001. For the comparative three month periods, loan origination costs increased by $29,000, or 9%, to $343,000, while decreasing for the nine months period by $45,000, or 5%, to $941,000. For the comparative three months periods, client services decreased $226,000, or 49%, to $238,000, and for the nine months periods the decrease was $766,000, or 53%, to $678,000. The decrease from 2001 was primarily as a result of the decrease in services fees charged to the Company from third party vendors in 2002. For the comparative three month periods, advertising and promotion decreased by $157,000, or 46%, to $185,000 and for the nine month period decreased by $375,000, or 42%, to $515,000. The decrease from 2001 was primarily as a result of certain sponsorships no longer being continued in 2002. For the comparative three month periods, stationery and supplies decreased by $27,000, or 25%, to $82,000 and for the nine month period decreased $100,000, or 27%, to $268,000. For the comparative three month periods, telephone expense decreased by $7,000, or 8%, to $83,000 and for the nine month period decreased by $29,000, or 11%, to $241,000. For the comparative three month period, other noninterest expense increased $266,000, or 26%, to $1,295,000 and for the nine month period increased $594,000, or 19%, to $3,657,000 in support of the overall growth of the Company and expenses related to the Company's investment in a low income housing project during the first quarter of 2002.

Income Taxes

The provision for income taxes for the three and nine months ended September 30, 2002 was $848,000 and $2,393,000, as compared to $1,088,000 and $3,594,000 for the same periods in the prior year. The following table shows the income tax rate for each period indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Income tax rate	31.88 %	37.38 %	32.88 %	37.88 %

The difference in the effective tax rate compared to the statutory tax rate is primarily the result of the Company's receipt of tax fee distributions from certain life insurance contracts, low income housing tax credits, and changes in the Company's level of investments in municipal securities.

FINANCIAL CONDITION

Total assets increased $46,990,000, or 5%, to $959,720,000 at September 30, 2002 from $912,730,000 at December 31, 2001, and increased $49,855,000, or 5%, from $909,865,000 at September 30, 2001. Total portfolio loans decreased $2,233,000, or less than 1%, to $630,684,000 at September 30, 2002 from $632,917,000 at December 31, 2001, but increased $14,911,000, or 2% from $615,773,000 at September 30, 2001. Total deposits were $841,937,000 at September 30, 2002, an increase of 4% from $807,908,000 at December 31, 2001, and an increase of 5% from $801,838,000 at September 30, 2001. The overall increase reflects the continued internal growth of the Company since December 31, 2001, primarily in cash and due from banks and federal funds sold funded by the increases in noninterest demand deposits and saving and money market deposits, offset by a decrease in time deposits.

Securities Portfolio

The following table sets forth the carrying value of investment securities at the dates indicated:

(Dollars in thousands)	September 30, 2002	September 30, 2001	December 31, 2001
Securities available-for-sale (at fair value)			
U.S. Treasury	$ 1,106	$ 1,544	$ 3,593
U.S. Government Agencies	50,203	41,432	53,762
Mortgage-backed securities	13,261	22,532	22,839
Municipals	13,186	10,947	9,273
Corporate bonds	2,629	2,071	2,067
CMOs	14,579	--	--
Total securities available-for-sale	$ 94,964	$ 78,526	$ 91,534
Securities held-to-maturity (at amortized cost)			
Mortgage-backed securities	$ --	$ 4,668	$ 4,381
CMOs	--	1,636	893
Municipals	--	10,941	10,002
Total securities held-to-maturity	$ --	$ 17,245	$ 15,276

The following table summarizes the composition of the Company's investment securities and the weighted average yields at September 30, 2002:

	September 30, Maturity									
	Within One Year		After One and Within Five Years		After Five and Within Ten Years		After Ten Years		Total	
(Dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available-for-sale:										
U.S. Treasury	$ 1,106	2.08 %	$ --	-- %	$ --	-- %	$ --	-- %	$ 1,106	2.08 %
U.S. Government Agencies	30,746	5.04 %	19,457	3.76 %	1,412	-- %	--	-- %	50,203	4.55 %
Mortgage-backed securities	--	-- %	--	-- %	1,412	5.35 %	11,849	6.14 %	13,261	6.05 %
Municipals - taxable	--	-- %	1,704	6.60 %	--	-- %	--	-- %	1,704	6.60 %
Municipals - nontaxable	2,217	4.46 %	5,634	4.40 %	3,631	4.49 %	--	-- %	11,482	4.44 %
Corporates bonds	--	-- %	2,629	4.36 %	--	-- %	--	-- %	2,629	4.36 %
CMOs	--	-- %	--	-- %	2,085	5.13 %	12,494	4.59 %	14,579	4.67 %
Total available-for-sale	$ 34,069	4.91 %	$ 29,424	4.10 %	$ 7,128	4.85 %	$ 24,343	5.34 %	$ 94,964	4.77 %

Note: Yield on non-taxable municipal securities are not presented in a fully tax equivalent basis.

During the third quarter of 2002, the Company transferred all of its securities categorized as held-to-maturity to the available-for-sale category. The amortized cost of the transferred securities was $12,778,000 and the related unrealized holding gain was $841,000. The Company transferred these securities to increase liquid assets and to increase the ability for possible sale of these securities in the future and currently intends to classify all new purchases of securities as available-for-sale.

Loans

Total loans (exclusive of loans held for sale) decreased slightly to $630,684,000 as of September 30, 2002 from $632,917,000 as of December 31, 2001 but increased $14,911,000, or 2%, as compared to $615,773,000 as of September 30, 2001.

For the three and nine months ended September 30, 2002, $22,382,000 and $55,817,000 in loans guaranteed by the U.S. Small Business Administration (SBA) were generated and held for sale. $13,652,000 and $35,520,000 of SBA loans held for sale were sold into the secondary market. At September 30, 2002 and December 31, 2001, the Company serviced SBA loans, which it had sold to the secondary market of approximately $70,561,000 and $50,718,000, respectively. At September 30, 2002 and December 31, 2001, the carrying amount of the servicing assets was $1,378,000 and $783,000, respectively. There was no valuation allowance as of September 30, 2002 or December 31, 2001. The carrying amount of Interest-Only (I/O) strip receivable at September 30, 2002 and December 31, 2001 was $1,727,000 and $2,101,000, respectively. Servicing income from these loans was $362,000 and $935,000 for the quarter and nine months ended September 30, 2002, compared to $88,000 and $149,000 for the same periods in 2001. Amortization of the related assets was $258,000 and $536,000 for the quarter and nine months ended September 30, 2002, compared to $174,000 and $310,000 for the same periods in 2001. Heritage Bank of Commerce is a preferred lender with the U.S. Small Business Administration, which allows the Company to grant certain U.S. Small Business Administration loans without the prior approval of the SBA.

The following table summarizes the composition of the Company's loan portfolio at the dates indicated:

(Dollars in thousands)	September 30, 2002	% of Total	December 31, 2001	% of Total
Commercial	$ 228,548	36 %	$ 208,713	33 %
Real estate - mortgage	261,037	41 %	246,119	39 %
Real estate - land and construction	136,631	22 %	174,077	27 %
Consumer	4,320	1 %	3,833	1 %
Total loans	630,536	100 %	632,742	100 %
Deferred loan costs	148		175	
Allowance for loan losses	(12,416)		(11,154)	
Loans, net	$ 618,268		$ 621,763	

The Company's loan portfolio is based on commercial (primarily to companies engaged in manufacturing, wholesale, and service businesses) and real estate lending, with the balance in consumer loans. While no specific industry concentration is considered significant, the Company's lending operations are dependent on the technology and real estate industries and their supporting companies located within the Company's market area. Thus, the Company's borrowers could be adversely impacted by a downturn in these sectors of the economy, which could reduce the demand for loans and adversely impact the borrowers' abilities to repay their loans.

The following table sets forth the maturity distribution of the Company's loans at September 30, 2002:

(Dollars in thousands)	Due in One Year or Less	Over One Year But Less Than Five Years	Over Five Years	Total
Commercial	$ 214,933	$ 12,582	$ 1,033	$ 228,548
Real estate - mortgage	177,584	74,458	8,995	261,037
Real estate - land and construction	136,631	--	--	136,631
Consumer	3,822	498	--	4,320
Total loans	$ 532,970	$ 87,538	$ 10,028	$ 630,536
Loans with variable interest rates	$ 509,832	$ 48,648	$ 2,174	$ 560,654
Loans with fixed interest rates	23,138	38,890	7,854	69,882
Total loans	$ 532,970	$ 87,538	$ 10,028	$ 630,536

The table above also shows the distribution of such loans between those loans with predetermined (fixed) interest rates and those with variable (floating) interest rates. Floating rates generally fluctuate with changes in the prime rate as reflected in the western edition of *The Wall Street Journal*. At September 30, 2002, approximately 89% of the Company's loan portfolio consisted of floating interest rate loans.

Nonperforming assets

Nonperforming assets consist of nonaccrual loans, loans past due 90 days and still accruing, troubled debt restructurings and other real estate owned. Management generally places loans on nonaccrual status when they become 90 days past due, unless they are well secured and in the process of collection. When a loan is placed on nonaccrual status, any interest previously accrued but not collected is generally reversed from income. Loans are charged off when management determines that collection has become unlikely. Restructured loans are those where the Banks have granted a concession on the interest paid or original repayment terms due to financial difficulties of the borrower. Other real estate owned ("OREO") consists of real property acquired through foreclosure on the related underlying defaulted loans. The following table shows nonperforming assets at the dates indicated:

(Dollars in thousands)	September 30, 2002	September 30, 2001	December 31, 2001
Nonaccrual loans	$ 4,747	$ 66	$ --
Loans 90 days past due and still accruing	--	--	--
Restructured loans	--	--	--
Total nonperforming loans	4,747	66	--
Foreclosed assets	--	--	--
Total nonperforming assets	$ 4,747	$ 66	$ --
Nonperforming assets as a percentage of period end loans plus foreclosed assets	0.75 %	0.01 %	-- %

As of September 30, 2002, the Company had $4,747,000 loans on nonaccrual status, compared to $66,000 in the same period of the prior year, which were considered impaired loans. The increase in the nonaccrual loans at September 30, 2002 compared to December 31, 2001 is primarily the result of the placement of one commercial real estate loan on nonaccrual status during the third quarter of 2002. The impaired loans had a related valuation allowance of $876,000 at September 30, 2002. The Company had no loans past due 90 days or more and still accruing interest, no restructured loans and no foreclosed assets as of September 30, 2002 and 2001. The Company had no loans on nonaccrual status, no loans past due 90 days or more and still accruing interest, no restructured loans, no foreclosed assets, and no impaired loans as of December 31, 2001.

The Company assigns a risk grade consistent with the system recommended by regulatory agencies to all of its loans. Grades range from "Pass" to "Loss" depending on credit quality, with "Pass" representing loans that involve an acceptable degree of risk. Management conducts a critical evaluation of the loan portfolio monthly. This evaluation includes periodic loan by loan review for certain loans to evaluate the level of impairment as well as detailed reviews of other loans (either individually or in pools) based on an assessment of the following factors: past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, collateral value, loan volumes and concentrations, size and complexity of the loans, recent loss experience in particular segments of the portfolio, bank regulatory examination results, and current economic conditions in the Company's marketplace, in particular the state of the technology industry and the real estate market.

This process attempts to assess the risk of loss inherent in the portfolio by segregating loans into four components for purposes of determining an appropriate level of the allowance: "watch," "special mention," "substandard" and "doubtful." Additionally, the Company maintains a program for regularly scheduled reviews of certain new and renewed loans by an outside loan review consultant. Any loans identified during an external review process that expose the Company to increased risk are appropriately downgraded and an increase in the allowance for loan losses is established for such loans. Further, the Company is examined periodically by the FDIC, FRB, and the California Department of Financial Institutions at which time a further review of loan quality is conducted.

Loans that demonstrate a weakness, for which there is a possibility of loss if the weakness is not corrected, are categorized as "classified." Classified loans include all loans graded substandard, doubtful and loss and may result from problems specific to a borrower's business or from economic downturns that affect the borrower's ability to repay or that cause a decline in the value of the underlying collateral (particularly real estate).

Allowance for Loan Losses

It is the policy of management to maintain the allowance for probable loan losses at a level adequate for risks inherent in the loan portfolio. Based on information currently available to analyze loan loss delinquency and a history of actual charge-offs, management believes that the loan loss allowance is adequate. However, the loan portfolio can be adversely affected if California economic conditions and the real estate market in the Company's market area were to weaken. Additionally, any weakness of a prolonged nature in the technology industry would have a negative impact on the local market. The effect of such events although uncertain at this time, could result in an increase in the level of nonperforming loans and increased loan losses, which could adversely affect the Company's future growth and profitability. No assurance of the ultimate level of credit losses can be given with any certainty. Loans are charged against the allowance when management believes that the collectibility of the principal is unlikely.

The following table summarizes the Company's loan loss experience as well as provisions, charge-offs and recoveries to the allowance for loan losses and certain pertinent ratios for the periods indicated:

(Dollars in thousands)	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001	For the Year Ended December 31, 2001
Balance, beginning of period / year	$ 11,154	$ 9,651	$ 9,651
Net charge-offs	(804)	(312)	(407)
Provision for probable loan losses	2,066	1,334	1,910
Balance, end of period / year	$ 12,416	$ 10,673	$ 11,154
Ratios:			
Net charge-offs to average loans outstanding	0.13 %	0.05 %	0.07 %
Allowance for loan losses to average loans	1.95 %	1.68 %	1.84 %
Allowance for loan losses to total loans	1.97 %	1.73 %	1.76 %
Allowance for loan losses to non-performing assets	262 %	16,171 %	-- %

Charge-offs reflect the realization of losses in the portfolio that were recognized previously though provisions for probable loan losses. The net charge-offs as of September 30, 2002 were $804,000, compared to $312,000 as of September 30, 2001. The increase in net charge-offs in 2002 was primarily due to the increase in certain commercial loan charge-offs. Historical net charge-offs are not necessarily indicative of the amount of net charge-offs that the Company will realize in the future.

The following table summarizes the allocation of the allowance for loan losses (ALL) by loan type and the allocated allowance as a percent of loans outstanding in each loan category at the dates indicated:

	September 30, 2002		September 30, 2001		December 31, 2001	
(Dollars in thousands)	Amount	Percent of ALL by category to total loans by category	Amount	Percent of ALL by category to total loans by category	Amount	Percent of ALL by category to total loans by category
Commercial	$ 5,636	2.46 %	$ 4,422	2.17 %	$ 5,489	2.63 %
Real estate - mortgage	2,317	0.89 %	1,175	0.49 %	1,420	0.58 %
Real estate - land and construction	2,973	2.18 %	2,843	1.73 %	3,066	1.76 %
Consumer	104	2.40 %	159	2.10 %	102	2.66 %
Unallocated	1,386	-- %	2,074	-- %	1,077	-- %
Total	$ 12,416	1.97 %	$ 10,673	1.73 %	$ 11,154	1.76 %

The increase in the allowance for loan losses from September 30, 2001 reflects the growth in the Company’s overall level of loans, primarily in the commercial and real estate - mortgage loan portfolio offset by decreases in the real estate land and construction portfolio and the impact of this change in mix on the need for additional allowances. The increase from December 31, 2001 reflects these changes in the mix of loans, primarily the increase in commercial loans which typically have the greatest inherent loss exposure.

Loans are charged against the allowance when management believes that the collectibility of the principal is doubtful. The Company's methodology for assessing the appropriateness of the allowance consists of several key elements, which include specific allowances, the formula allowance and the unallocated allowance.

Specific allowances are established in cases where management has identified significant conditions or circumstances related to a credit that management believes indicate the probability that a loss may be incurred in excess of the amount determined by the application of the formula allowance. At September 30, 2002, nonperforming loans had a related specific valuation allowance of $876,000. There were no nonperforming loans at December 31, 2001.

The formula allowance is calculated by applying loss factors to outstanding loans and certain unused commitments. Loss factors are based on management's experience and may be adjusted for significant factors that, in management's judgment, may affect the collectibility of the portfolio as of the evaluation date. Due to the Company's limited historical loss experience, management utilizes their prior industry experience to determine the loss factor for each category of loan. The formula allowance on September 30, 2002 was $11,030,000, compared to $10,077,000 on December 31, 2001. The increase was attributable to several factors, most notably the change in the mix of loans and an increase in certain factors used to estimate the reserve allocations.

The unallocated allowance is based upon management's evaluation of various conditions that are not directly measured in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits or portfolio segments. As of September 30, 2002, the Company’s unallocated allowance was $1,386,000, compared to $1,077,000 on December 31, 2001. In evaluating the appropriateness of the unallocated allowance, management considered the changes in the trend of the volume and severity of past due and classified loans; and trends in the volume of nonaccrual loans, troubled debt restructurings and other loan modifications, changes in national and local economic and business conditions, trends, and developments, including the condition of various market segments, changes in underwriting standards and collection, charge-off, and recovery practices, and changes in the volume and mix of the loan portfolio and in credit concentrations particularly in commercial and real estate land and construction lending. The range of potential impact for these factors is estimated to be from $970,000 - $1,733,000. There can be no assurance that the adverse impact of any of these conditions on the Bank will not be in excess of the range set forth above.

In addition, the current business, economic, and real estate markets along with the seasoning of the portfolio and the nature and duration of the current business cycle will affect the amount of unallocated reserve.

In an effort to improve its analysis of risk factors associated with its loan portfolio, the Company continues to monitor and to make appropriate changes to its internal loan policies. These efforts better enable the Company to assess risk factors prior to granting new loans and to assess the sufficiency of the allowance for loan losses.

Management believes that it has adequately provided an allowance for estimated probable losses in the credit portfolio. Significant deterioration in Northern California real property values or economic downturns could impact future operating results, liquidity or capital resources and require additional provisions to the allowance or cause losses in excess of the allowance.

Deposits

Deposits totaled $841,937,000 at September 30, 2002, an increase of 4%, compared to deposits of $807,908,000 at December 31, 2001 and an increase of 5% compared to $801,838,000 at September 30, 2001. Compared to December 31, 2001, noninterest bearing demand deposits increased $31,139,000 or 15%, interest bearing demand deposits increased $4,052,000 or 5%, savings and money market deposits increased $52,406,000 or 23%. These increases were offset by decreases in time deposits of $49,348,000, or 22%, and brokered deposits of $4,220,000, or 6%.

The following table summarizes the distribution of average deposits and the average rates paid for the periods

	Nine Months Ended September 30, 2002		Year Ended December 31, 2001	
(Dollars in thousands)	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Demand, noninterest bearing	$ 204,045	-- %	$ 204,114	-- %
Demand, interest bearing	80,590	0.91 %	69,634	1.58 %
Saving and money market	266,408	1.84 %	227,344	3.09 %
Time deposits, under $100	58,968	3.32 %	78,910	5.37 %
Time deposits, $100 and over	133,242	2.90 %	166,268	5.18 %
Brokered deposits	68,337	3.89 %	30,843	5.32 %
Total average deposits	$ 811,590	1.74 %	$ 777,113	2.91 %

indicated:

Deposit Concentration and Deposit Volatility

The following table indicates the maturity schedule of the Company's time deposits of $100,000 or more as of

September 30, 2002.

(Dollars in thousands)	Balance	% of Total
Three months or less	$ 78,166	42 %
Over three months through twelve months	84,498	45 %
Over twelve months	25,653	13 %
Total	$ 188,317	100 %

The Company focuses primarily on servicing business accounts that are frequently over $100,000 in average size. Certain types of accounts that the Company makes available are typically in excess of $100,000 in average balance per account, and certain types of business clients whom the Company serves typically carry deposits in excess of $100,000 on average. The account activity for some account types and client types necessitates appropriate liquidity management practices by the Company to ensure its ability to fund deposit withdrawals.

Return on Equity and Assets

The following table indicates the ratios on the annualized return on average assets and average equity and average equity to average assets for each indicated period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Return on average assets	0.77 %	0.82 %	0.71 %	0.91 %
Return on average equity	9.05 %	10.03 %	8.45 %	11.28 %
Average equity to average assets ratio	8.53 %	8.16 %	8.38 %	8.04 %

Annualized return on average assets and return on average equity for the quarter ended September 30, 2002 were 0.77% and 9.05%, respectively, compared with returns of 0.82% and 10.03%, respectively, for the same period in 2001. The equity to asset ratio for the quarter ended September 30, 2002 was 8.53%, compared to 8.16% for the same period in 2001. Annualized return on average assets and return on average equity for the nine months ended September 30, 2002 were 0.71% and 8.45%, respectively, compared with returns of 0.91% and 11.28%, respectively, for the same period in 2001. The equity to asset ratio for the nine months ended September 30, 2002 was 8.38%, compared to 8.04% for the same period in 2001.

Interest Rate Risk

The planning of asset and liability maturities is an integral part of the management of an institution's net yield. To the extent maturities of assets and liabilities do not match in a changing interest rate environment, net yields may change over time. Even with perfectly matched repricing of assets and liabilities, risks remain in the form of prepayment of loans or investments or in the form of delays in the adjustment of rates of interest applying to either earning assets with floating rates or to interest bearing liabilities. The Company has generally been able to control its exposure to changing interest rates by maintaining primarily floating interest rate loans and a majority of its time certificates with relatively short maturities

The following table sets forth the interest rate sensitivity of the Company's interest-earning assets and interest-bearing liabilities at September 30, 2002, using the rate sensitivity gap ratio. For purposes of the following table, an asset or liability is considered rate-sensitive within a specified period when it can be repriced or when it is scheduled to mature within the specified time frame:

(Dollars in thousands)	Within Three Months	Due in Three to Twelve Months	Due After One to Five Years	Due After Five Years	Not Rate-Sensitive	Total
Interest earning assets:						
Federal funds sold	$ 102,700	$ --	$ --	$ --	$ --	$ 102,700
Interest bearing deposits in other financial institutions	6,401	--	--	--	--	6,401
Securities	3,935	30,134	29,424	31,471	--	94,964
Total loans	484,718	86,940	87,625	10,872	--	670,155
Total interest earning assets	597,754	117,074	117,049	42,343	--	874,220
Cash and due from banks	--	--	--	--	41,861	41,861
Other assets	--	--	--	--	43,639	43,639
Total assets	$ 597,754	$ 117,074	$ 117,049	$ 42,343	$ 85,500	$ 959,720
Interest bearing liabilities:						
Demand, interest bearing	$ 84,581	$ --	$ --	$ --	$ --	$ 84,581
Savings and money market	282,400	--	--	--	--	282,400
Time deposits	96,166	109,621	31,393	--	--	237,180
Mandatorily Redeemable Cumulative Trust Preferred Securities	--	--	--	23,000	--	23,000
Total interest bearing liabilities	463,147	109,621	31,393	23,000	--	627,161
Noninterest demand deposits	77,372	--	--	--	160,404	237,776
Other liabilities	--	--	--	--	13,992	13,992
Shareholders' equity	--	--	--	--	80,791	80,791
Total liabilities and shareholders' equity	$ 540,519	$ 109,621	$ 31,393	$ 23,000	$ 255,187	$ 959,720
Interest rate sensitivity GAP	$ 57,235	$ 7,453	$ 85,656	$ 19,343	$ (169,687)	$ --
Cumulative interest rate sensitivity GAP	$ 57,235	$ 64,688	$ 150,344	$ 169,687	$ --	$ --
Cumulative interest rate sensitivity GAP ratio	5.96 %	6.74 %	15.67 %	17.68 %	-- %	-- %

The foregoing table demonstrates that the Company had a positive cumulative one year gap of $64,688,000, or 6.74% of total assets, at September 30, 2002. In theory, this would indicate that $64,688,000 more in assets than liabilities would reprice if there was a change in interest rates over the next year. If interest rates were to increase, the positive gap would tend to result in a higher net interest margin, conversely if interest rates were to decline the positive gap would tend to result in a lower interest margin. However, changes in the mix of earning assets or supporting liabilities can either increase or decrease the net margin without affecting interest rate sensitivity. This characteristic is referred to as a basis risk and, generally, relates to the repricing characteristics of certain short-term funding sources.

Interest rate changes do not affect all categories of assets and liabilities equally or at the same time. Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities, which may have a significant effect on the net interest margin and are not reflected in the interest sensitivity analysis table. Because of these factors, an interest sensitivity gap report may not provide a complete assessment of the exposure to changes in interest rates. To supplement traditional GAP analysis, the Company performs simulation modeling to estimate the potential effects of changing interest rate environments. The process allows the Company to explore the complex relationships within the GAP over time and various interest rate environments.

Liquidity risk represents the potential for loss as a result of limitations on the Company's ability to adjust for future cash flows, to meet the needs of depositors and borrowers, and to fund operations on a timely and cost-effective basis. The liquidity policy approved by the board requires annual review of the Company's liquidity by the asset/liability committee, which is composed of senior executives, and the finance and investment committee of the board of directors.

The Company's internal asset/liability committee and the finance and investment committee of the board each meet monthly to monitor the Company's investments, liquidity needs and to oversee its asset/liability management. The Company evaluates the rates offered on its deposit products on a weekly basis.

Liquidity and Liability Management

To meet liquidity needs, the Company maintains a portion of its funds in cash deposits in other banks, in Federal funds sold, and in investment securities. At September 30, 2002, the Company's primary liquidity ratio was 25%, comprised of $66,419,000 in investment securities available-for-sale with maturities (or probable calls) of up to five years, less $9,153,000 of securities that were pledged to secure public and certain other deposits as required by law and contract; Federal funds sold of $102,700,000, and $48,262,000 in cash and due from banks, as a percentage of total unsecured deposits of $832,784,000.

Capital Resources

The following table summarizes risk-based capital, risk-weighted assets, and risk-based capital ratios of the Company:

(Dollars in thousands)	September 30, 2002	September 30, 2001	December 31, 2001	Minimum Regulatory Requirements
Capital components:				
Tier 1 Capital	$ 100,398	$ 90,377	$ 91,598	
Tier 2 Capital	10,025	9,304	9,664	
Total risk-based capital	$ 110,423	$ 99,681	$ 101,262	
Risk-weighted assets	$ 803,475	$ 744,699	$ 779,060	
Average assets	$ 927,078	$ 882,975	$ 898,020	
Capital ratios:				
Total risk-based capital	13.7 %	13.4 %	13.0 %	8.0 %
Tier 1 risk-based capital	12.5 %	12.1 %	11.8 %	4.0 %
Leverage ratio (1)	10.8 %	10.3 %	10.2 %	4.0 %

(1) Tier 1 capital divided by average assets (excluding goodwill).

At September 30, 2002 and 2001, and December 31, 2001, the Company's capital met all minimum regulatory requirements. As of September 30, 2002, management believes that HBC, HBEB, HBSV, and BLA were considered "Well Capitalized" under the Prompt Corrective Action Provisions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

No material changes have occurred during the quarter to the Company's market risk profile or information. For further information refer to the Company's Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

(a) Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), within 90 days of the filing date of this report. Based on their evaluation, our principal executive officer and principal accounting officer concluded that Heritage Commerce Corp's disclosure controls and procedures are effective.

(b) There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in paragraph (a) above.

Part II — Other Information

Item 6. - Exhibits and Reports on Form 8-K

(a) Exhibits included with this filing:

Exhibits Number	Name
99.1	Certification of Registrant's Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
99.2	Certification of Registrant's Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

(b) Reports on Form 8-K

The Registrant filed Current Report on Form 8-K dated October 23, 2002 under item 5 to report its third quarter ended September 30, 2002 financial results, and condensed consolidated financial information.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Heritage Commerce Corp (Registrant)
November 13, 2002 Date	/s/ Brad L. Smith Brad L. Smith, Chairman of the Board and CEO
November 13, 2002 Date	/s/ Lawrence D. McGovern Lawrence D. McGovern, Chief Financial Officer

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CERTIFICATION

(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Brad L. Smith, Chief Executive Officer and Chairman of theBoard, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Heritage Commerce Corp;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ Brad L. Smith

Brad L. Smith

Chief Executive Officer and Chairman of the Board

CERTIFICATION

(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Lawrence D. McGovern, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Heritage Commerce Corp;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 13, 2002

/s/ Lawrence D. McGovern

Lawrence D. McGovern

Chief Financial Officer

Exhibit Index

Exhibit	Description
99.1	Certification of Registrant's Chief Executive Officer Pursuant To 18 U.S.C. Section 1350
99.2	Certification of Registrant's Chief Financial Officer Pursuant To 18 U.S.C. Section 1350

Exhibit 99.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Heritage Commerce Corp (the "Company") on Form 10-Q for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brad L. Smith, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 13, 2002

/s/ Brad L. Smith

Brad L. Smith

Chief Executive Officer

Exhibit 99.2

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Heritage Commerce Corp (the "Company") on Form 10-Q for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lawrence D. McGovern, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 13, 2002

/s/ Lawrence D. McGovern

Lawrence D. McGovern

Chief Financial Officer